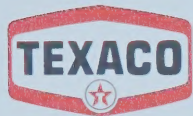


Texaco Canada Inc. Annual Report 1979



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Texaco Canada Inc.
90 Wynford Drive
Don Mills, Ontario M3C 1K5

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The Annual and Special General Meeting of Shareholders of Texaco Canada Inc. will be held at the Company's head office at 90 Wynford Drive, Don Mills, Ontario, on Friday, April 18, 1980, at 10:45 a.m.

*On peut obtenir un exemplaire français du présent rapport annuel en s'adressant au secrétaire de la compagnie,
90 Wynford Drive
Don Mills, Ontario M3C 1K5*

The use in this report of such terms as *Texaco Canada, Corporation, Company, organization, we, us, our* and *its*, when referring to Texaco Canada Inc. or to its subsidiaries and affiliates either individually or collectively, is only for convenience and is not intended to be an accurate description of corporate relationships.

Subsidiary Companies

Texaco Canada Resources Ltd.
Oilship Limited
The Great Eastern Oil & Import Co. Limited
Regent Refining (Canada) Limited
Tolhurst Petroleum Ltd.
Independent Petroleum (1970) Ltd.
Chartier Petroleum Ltd.
McColl-Frontenac Oil Co. Ltd.
Public Fuel Transmission Systems Limited
Lowry Fuels Limited

Principal Investments and Percentage Interest

Federated Pipe Lines Ltd.	50%
Trans-Northern Pipe Line Company	33.33%
Alberta Products Pipe Line Ltd.	20%
Montreal Pipe Line Company Limited	16%

Transfer Agents in Canada:

Montreal Trust Company,
Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

Registrars in Canada:

The Royal Trust Company,
Montreal, Toronto, Winnipeg,
Regina, Calgary and Vancouver

Transfer Agents and Registrars in the United States:

The Royal Bank & Trust Company
68 William Street, New York, N.Y.

Officers

R. W. Sparks
*Chairman of the Board
and Chief Executive Officer*
Richard B. Palmer
President
James E. Brazell
Executive Vice-President
J. L. Morrison
Executive Vice-President
O. C. Cleyn
*Vice-President, Eastern Canada
and Region Manager*
A. J. Galipeault
Vice-President and General Counsel
G. T. Plunkett
Vice-President and Treasurer
J. C. Wattie
*Vice-President, Personnel and
Corporate Services*
E. J. Little
Secretary
P. M. Taylor
Corporate Tax Officer
D. L. West
Comptroller

Cover: Drillship Discoverer Seven Seas
on station, 200 miles northeast of
St. John's, Newfoundland.

Highlights

Financial

	1979	1978*
	Millions of dollars	
Gross income.....	\$2,685	\$1,928
Net income.....	264	154
Total cash dividends.....	72	44
Funds provided by operations.....	387	282
Taxes and crown royalties.....	904	698
Total capital employed at year-end.....	1,751	1,513
Shareholders' equity at year-end.....	1,291	1,100
Working capital at year-end.....	478	252
Long-term debt at year-end.....	94	100
Capital and exploratory expenditures.....	137	186

Rate of Return

On average capital employed.....	16.4%	11.5%
----------------------------------	-------	-------

Per Common Share Data

Net income.....	\$ 8.04	\$ 4.40
Funds provided by operations.....	12.83	9.35
Shareholders' equity at year-end.....	33.13	26.76

Operating

	Thousands of barrels daily	
Gross production of crude oil and natural gas liquids.....	168	123
Refinery runs.....	194	164
Petroleum product sales.....	207	193
Natural gas sales (millions of cubic feet daily).....	78	72

*Restated to reflect the change in the method of accounting for lease transactions other than those pertaining to natural resources. See Note 1 to the consolidated financial statements.

Victorian style of recently-renovated service station in Toronto's Cabbagetown community conforms with the appearance of neighbouring buildings. It was designed in co-operation with area residents.



To the Shareholders:



R. W. Sparks

Texaco Canada enters the 1980's with well-balanced upstream and downstream operations. The company is, therefore, well positioned to be a strong participant in the ongoing search for and development of petroleum and natural gas supplies as well as in the refining, distribution and marketing of petroleum products in Canada.

During 1979 a wholly-owned subsidiary, Texaco Canada Resources Ltd., an Alberta-incorporated company based in Calgary, was formed to own and manage Texaco Canada's exploration and producing properties. The downstream operations of the company were strengthened during the year by organizational changes which resulted in increased efficiency and greater ability to meet supply and cost challenges affecting the petroleum industry.

Earnings and Operations

For the company, as well as for the petroleum industry in Canada as a whole, 1979 was a successful and eventful year.

The sharp rise in Texaco Canada's consolidated net income to \$263.9 million, or \$8.04 a common share, from a restated \$154.1 million, equal to \$4.40 a share, the previous year was largely attributable to two factors: a substantial increase in the company's production of crude oil and natural gas liquids and a significant turn-around in downstream earnings.

Both the higher crude production — undertaken at the urging of the Canadian government — and the strengthening of product prices during the second half which helped generate better refining-marketing earnings were brought about largely by the tight world crude oil supply situation. Operating volumes showed marked increases to record levels: gross production of crude oil and natural gas liquids rose to 167,900 barrels daily, up 37%; refinery runs of 193,500 barrels a day were 18% higher; sales of petroleum products at an average level of 207,200 barrels daily, increased by almost 8%, and natural gas sales rose to 78.3 million cubic feet per day, up 10%.

During 1979 the company increased the extent and scope of its exploration and drilling operations in both the conventional areas of Western Canada and the frontier regions.

In the West Pembina area — where Texaco Canada has an interest in more than 120,000 gross acres — development drilling appears to confirm expectations that more than 100 million barrels of recoverable oil reserves could eventually be realized by the company.

The company's recoverable gas reserves in the Elmworth area are estimated at more than 500 billion cubic feet, and by 1984 its production from these reserves is expected to reach a level of between 85 and 90 million cubic feet per day.

In the East Coast frontier area, Texaco Canada has an 18% interest in the promising Venture D-23 wildcat gas well drilled off Sable Island. Although the exploratory well which was drilled in the Gander block offshore Newfoundland, with Texaco Canada as the operator, held no oil or gas, studies are underway to determine the remaining potential in the area.

As a result of recent discoveries by Dome Petroleum Limited in the Beaufort Sea, Texaco Canada's acreage in this area appears to have excellent oil and gas potential.

At year-end, the company's land holdings totalled 17.1 million gross acres compared with 12.9 million at the close

of 1978.

In its downstream activities, Texaco Canada placed emphasis on upgrading and expanding its refining capacity, on marketing through retail outlets and distribution channels which improve the return on investment, and on energy conservation and cost control measures.

Refinery projects completed in 1979 or still underway at year-end included installation of facilities to increase production of high octane gasoline at the Montreal refinery, to increase the capacity of the Edmonton refinery by some 17%, and to further improve the environmental control at the Montreal, Edmonton and Halifax refineries.

The Nanticoke, Ontario, refinery met high performance standards and contributed to the company's earnings during its first full year of operation. The plant has been operating at close to its rated capacity and is providing very good yields of premium unleaded gasoline and other light products.

Texaco Canada has been eliminating service stations which are uneconomical, and has been moving more product through fewer outlets. Marketing investments are being directed mainly toward consolidation of the wholesale and retail distribution system, cost reduction programs, and conservation and environmental improvements.

The quarterly dividend rate on the common shares of Texaco Canada Inc. was increased to 50¢, from 42¢, effective with the payment for the first quarter of 1980.

The company's working capital, which is now at a normal level following the heavy investments in recent years in construction of the Nanticoke refinery, amounted to \$477.6 million at December 31, 1979. This increase reflects higher levels of cash needed to meet obligations because of reduced credit terms by crude suppliers, and the higher value of crude oil and products in inventories and increased accounts receivable.

Capital and exploratory expenditures of \$137 million in 1979 brought Texaco Canada's total outlay in the

past five years to almost \$1 billion. The company's spending for exploration and development and for downstream facilities is expected to accelerate during the next three to five years as new investment opportunities are generated.

Return on average capital employed in 1979 was 16.4%.

The Industry

The year 1979 was one of substantial growth and progress for the Canadian oil and gas industry in spite of further pressures and some uncertainties arising from both the international supply situation and the lack of appropriate government energy policies in Canada.

Production of crude oil and natural gas liquids increased by 13% and included the largest rise in conventional crude production since 1972. Natural gas sales were 3% higher. Consumption of refined products, up by more than 4%, exceeded forecasts and pointed to the urgent need for more effective conservation measures in Canada.

Early in 1980 government policies regarding a number of issues vital to the industry remained undecided or unclear.

The cost of Canadian oil will continue to rise quite rapidly towards the world price, irrespective of the form and timing of the increases. It is important, however, that the producers' share of the wellhead price remains adequate in relation to the enormous investments which the industry must make in order to replace and increase Canada's dwindling domestic oil reserves.

Disposition of the country's increasingly abundant reserves of natural gas is a complex problem. In our view, any decision regarding proposals for force-feeding Western Canadian gas into new markets east of Montreal should be postponed until the commercial viability and market availability of new discoveries off the East Coast are determined. It is possible that such Eastern gas supplies could start flowing relatively soon after the proposed gas movement from the West, and without the need for subsidization. Meanwhile, indications are that Canada's surplus gas

supplies are reaching a level at which increased exports to the United States should be authorized well above the 3.75 trillion cubic feet recently recommended by the National Energy Board. However, some uncertainties regarding increased exports still exist, including approval by the United States of import permits and the effects on United States demand of the recent Canadian export price increase.

The two-year-old Federal tax incentive for frontier exploration commonly referred to as the "super depletion" allowance has already led to greatly accelerated exploration in the high-risk frontier areas and to discoveries which may prove significant in this country's quest for energy self-sufficiency. In view of Canada's expected growing dependence on imported oil through the 1980's — and the very high cost and long lead-times involved in frontier exploration and development — it is to be hoped that the newly-elected government will maintain the momentum by extending these incentives fully for several years beyond their expiry date of April 1980. It is imperative that energy policies encourage exploration and production on the one hand and conservation by consumers on the other.

Changes in Directors and Senior Officials

R.W. Sparks, previously President and Chief Executive Officer, was elected Chairman of the Board and Chief Executive Officer, and Richard B. Palmer, formerly a Senior Vice-President and Director of Texaco Inc., was elected President and a Director, both effective March 1, 1980. The Board anticipates that Mr. Sparks — having elected to take early retirement as an employee on November 1, 1980 — will continue to serve as Chairman of the Board and a Director of Texaco Canada after his retirement, and that Mr. Palmer will then succeed Mr. Sparks as Chief Executive Officer.

Mr. Palmer, as a member of the Board, succeeded F. Augustus Seamans, whose resignation as a Director of the company was accepted with regret.

Other changes of Directors and senior officials in 1979 were:

George W. Govier, of Calgary, was appointed to the Board succeeding Paul Murdock, who asked to be replaced after more than 15 years of valuable service as a Director of the company.

Donald E. Hyer, previously Vice-President and General Manager, Exploration and Producing, Texaco Canada Inc., was elected President and Chief Executive Officer of Texaco Canada Resources Ltd., Calgary, upon the creation of that subsidiary effective August 1.

J.C. Wattie was elected Vice-President, Personnel and Corporate Services, Texaco Canada Inc. Previously he was Vice-President, Corporate Planning and Services.

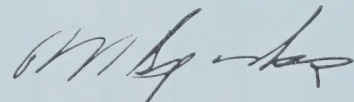
Lloyd W. Kennedy, General Manager, Refining, assumed special duties effective December 1. John M. Murray was appointed to succeed Mr. Kennedy as General Manager, Refining.

Harry T. Hudson, Vice-President and Assistant to the President, retired at the end of 1979 after 39 years of dedicated service.

Philip M. Taylor was appointed Corporate Tax Officer, effective January 1, 1980, succeeding Orville C. Windrem who resigned to assume new duties as a Vice-President of Texaco Canada Resources Ltd.

I wish to express appreciation for the efficiency, loyalty and dedicated teamwork of the men and women of Texaco Canada whose efforts enabled the company to enjoy a successful financial and operating year in 1979.

On behalf of the Board of Directors,



R.W. Sparks
Chairman of the Board and
Chief Executive Officer

Don Mills, Ontario
March 18, 1980

Financial Review

Earnings and Dividends

Texaco Canada's consolidated net income for 1979 was \$263.9 million, compared with \$154.1 million in 1978. Income per common share amounted to \$8.04, compared with \$4.40 in the previous year.

Net income for 1978 has been restated to reflect a change in the method of accounting for lease transactions other than natural resource leases. The restatement increased previously reported net income by \$6.2 million, equal to \$0.21 per common share.

Net income improved primarily as a result of a substantial increase in gross production of crude oil and natural gas liquids at higher prices and the firming of petroleum product prices during the latter part of 1979. Other factors contributing to the increase were higher natural gas sales at slightly better prices than in the previous year, greater volume in refining and marketing of petroleum products, increased interest income from short-term investments and various efficiency improvements. The efficiency

improvements were realized by the company's ability to process substantially all of its refined product requirements in its own plants (principally because of the new Nanticoke refinery being in operation for the first full year), eliminate non-profitable marketing outlets and centralize our distribution system for Ontario and Quebec.

Cash dividends paid or accrued to shareholders for the year 1979 amounted to \$72.3 million, representing 27% of net income. The \$43.8 million paid or accrued during 1978 also equalled approximately the same percentage of that year's net income. The common dividend per share was increased from a quarterly rate of \$0.39 or \$1.56 on an annual basis, to \$0.42 or \$1.68 per year commencing in the first quarter of 1979.

Gross income of \$2,684.9 million increased by 39% over the gross income reported for 1978. The increase is attributed to higher production of crude oil and natural gas liquids, greater natural gas sales, the general increase in product

prices, and an improvement in income from short-term investments.

Total costs and other deductions including income taxes amounted to \$2,421.0 million, compared with \$1,774.3 million, an increase of 36% over 1978. Higher volume activities in all segments of the company's operations, increased crude oil prices and continuing inflationary pressure were the significant factors in higher costs and expenses.

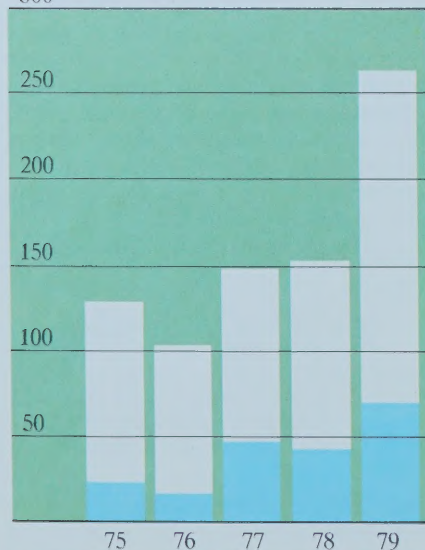
Taxes and Crown Royalties

Total taxes and crown royalties paid or accrued including taxes collected from consumers for governmental agencies in 1979 amounted to \$903.8 million, nearly three and one-half times the company's net income. The comparable amount for 1978 was \$697.8 million. The increase of \$206.0 million or nearly 30% is accounted for by higher direct taxes including current and deferred income taxes, property taxes, import duties, mineral taxes and levies of approximately \$139 million, and an increase of \$67 million in oil and gas

Net Income and Dividends

Millions of dollars

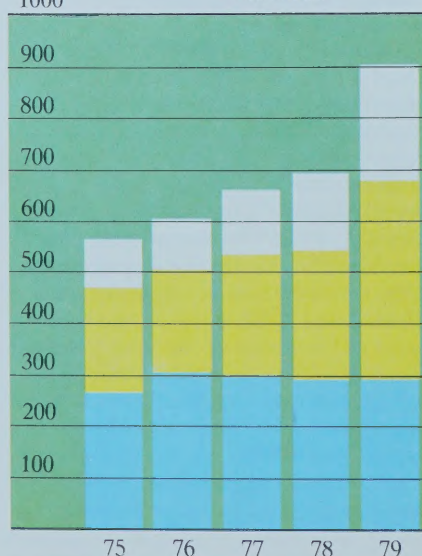
Legend:
 Net Income
 Dividends



Taxes and Crown Royalties

Millions of dollars

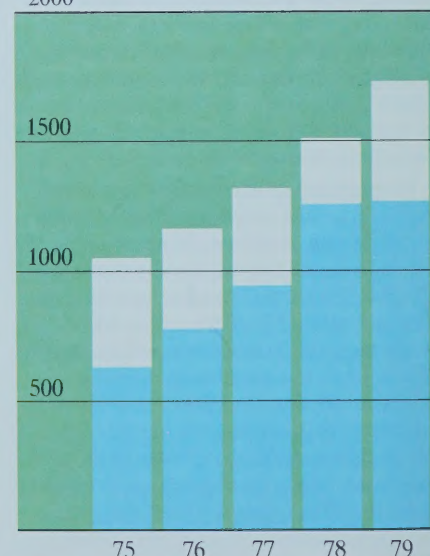
Legend:
 Crown Royalties
 Direct Taxes
 Collected from Consumers



Capital Employed

Millions of dollars

Legend:
 Working Capital
 Net Fixed Assets & Other



production crown royalties.

Assets and Capital Employed

Total assets of the company at December 31, 1979 amounted to \$2,299.7 million, compared with \$1,762.9 million at the end of 1978.

Total capital employed at year-end was \$1,750.7 million, an increase of \$237.9 million over the previous year-end. Of this increase, \$225.8 million improved working capital. This was required to meet accelerated payments resulting from reduced credit terms by suppliers, higher value of crude oil and product inventories, and increased accounts receivable.

Net fixed assets and other investments increased slightly from the \$1,261.0 million at year-end 1978 to \$1,273.1 million at December 31, 1979.

A substantial increase in the demand for the company's Western Canadian crude oil to counteract a shortage of imported oil into Eastern Canada, along with an improvement in petroleum product prices to a more realistic level

during the latter part of 1979 were the dominant reasons for the rate of return on average capital employed improving from 11.5% for 1978 to 16.4% for 1979.

Total shareholders' equity of \$1,291.4 million at the end of 1979 was \$191.6 million greater than at the end of 1978.

Funds Provided by Operations

Funds provided by operations of the company, prior to the deduction of net exploratory expenditures charged against current earnings, amounted to \$409.5 million in 1979 compared with \$303.1 million in 1978.

Capital and Exploratory Expenditures

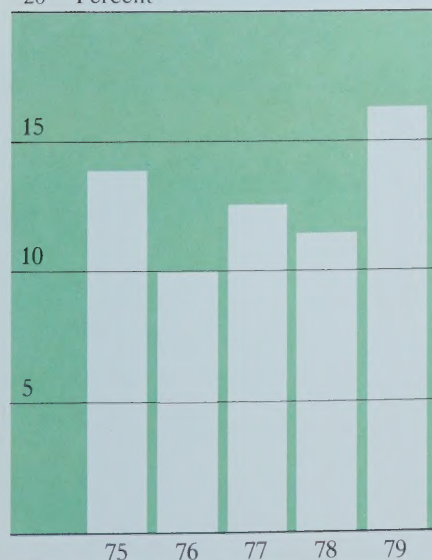
Capital and exploratory expenditures made in 1979 were \$136.6 million compared with \$186.0 million for 1978.

All facets of the company's operations recorded increases in expenditures during 1979 after excluding those relating to Nanticoke refinery in both periods.

Millions of dollars		
Capital and exploratory expenditures	1979	1978
Producing (energy resources)	\$ 89.9	\$ 74.2
*Manufacturing	25.4	94.5
Marketing	19.6	16.4
Other	1.7	.9
Total capital and exploratory expenditures	\$136.6	\$186.0
Deduct: Exploratory expenditures charged against current earnings	26.1	21.4
Total expenditures capitalized	\$110.5	\$164.6
*Includes expenditures for Nanticoke Refinery	\$3.6	\$85.7

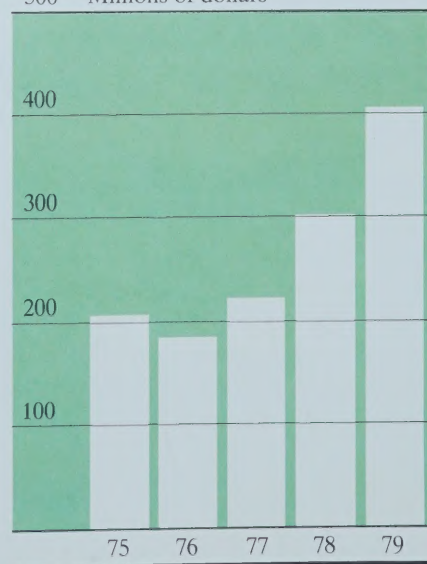
Rate of Return on Capital Employed

20 Percent



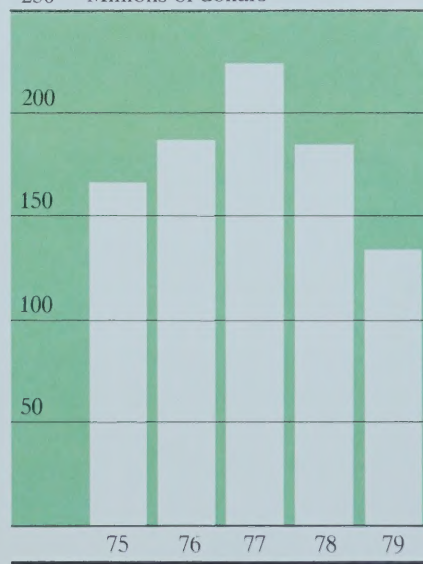
Funds Provided by Operations before deduction of Net Exploratory Expenditures

500 Millions of dollars



Capital and Exploratory Expenditures

250 Millions of dollars



Energy Resources

In 1979 Texaco Canada continued to be the second largest producer of petroleum liquids in Canada.

Exploration

During the year the company operated four geophysical crews, two of which were located in the high priority area of West Pembina and in the general Elmworth area of northwest Alberta. The other two were positioned in the Murray River-Progress area of northeastern British Columbia. Texaco Canada also

participated in a 395-mile seismic project in the Sable Basin, offshore Nova Scotia, near the significant Mobil Texaco PEX Venture D-23 gas and condensate discovery.

The company's exploratory drilling activities were concentrated in West Pembina, the central, west-central and Elmworth regions of Alberta, and offshore Newfoundland and Nova Scotia. In West Pembina, Texaco Canada participated in the drilling of six wildcat wells, resulting in five discoveries, four of which were oil and one natural gas. In other areas of central and west-central Alberta the company participated in 15 wildcat wells, resulting in 10 gas discoveries.

The company has an interest in two wildcat wells drilled off the East Coast during 1979. The Venture D-23 well offshore Nova Scotia encountered a very significant gas and condensate section, while the Texaco Shell et al Blue H-28 well offshore Newfoundland was abandoned after failing to encounter any oil or gas.

Thermosludge steam generator at Athabasca oil sand pilot project uses hot waste water from in-situ production, economizing on energy consumption and reducing environmental problems associated with the disposal of contaminated water.

Wildcat Drilling

	Number of Wells			
	1979		1978	
	Gross	Net	Gross	Net
Oil	4	2.2	15	8.5
Gas	12	3.5	10	4.5
Dry	7	3.0	3	2.0
Total	23	8.7	28	15.0
% Productive	70	66	89	87



Acreage

Texaco Canada purchased an interest in 51,000 gross acres in Western Canada, the majority of which lies in the Elmworth Deep Basin. Frontier holdings were expanded by 5.5 million gross acres as a result of the Newfoundland Gander block farm-in. The company also completed negotiations for an option to acquire interests in an additional 150,000 acres in the northwest extension of the Elmworth Deep Basin play.

At year-end the company's landholdings totalled some 17.1 million gross acres, compared with 12.9 million at the end of 1978.

Landholdings

Thousands of acres
as at December 31,
1979

	Gross	Net
Western Provinces	3,418	2,205
Beaufort Sea	1,421	1,305
East Coast	9,918	5,072
*Other	2,229	1,552
Coal	128	128
	17,114	10,262

*Includes Arctic Islands, N.W.T. and Yukon.

Production

The company's gross production of petroleum liquids increased by 36.8% to 167,900 barrels daily in 1979 from an average of 122,800 barrels daily in the previous year. Approximately 73% of the 1979 production came from the prolific Bonnie Glen and Wizard Lake fields in Alberta, and some of the company's

increased oil production came from the recent discoveries in West Pembina. During 1978, gross liquid production was restricted by allowables which were significantly below the productive capacity. Primarily because of the Iranian crisis world supplies of oil in 1979 were disrupted, causing shortages in many parts of the world, including reduced imports to Eastern Canada. To alleviate the situation, the Canadian Government permitted reciprocal crude oil exchange agreements with United States companies. These "swaps" increased demand for Western Canadian crude, which was exchanged for foreign crude imported in Eastern Canada, thereby bringing Canadian crude oil production close to its capacity.

Sales of natural gas increased to 78.3 million cubic feet a day in 1979 from an average of 71.5 million cubic feet a day in the previous year. This 9.6% increase is attributable to initiation of gas deliveries under new sales contracts, primarily in Elmworth, Alberta, and Silver, British Columbia.

Gross Production of Crude Oil and Natural Gas Liquids

	Thousands of Barrels Daily	
	1979	1978
Alberta		
Bonnie Glen	61.2	34.4
Wizard Lake	50.6	34.9
Pembina	13.9	10.7
Swan Hills	12.0	13.2
Nipisi	5.0	4.7
Other	9.7	9.5
Total	152.4	107.4
British Columbia	1.6	1.6
Manitoba and		
Saskatchewan	1.3	1.4
Natural Gas Liquids	12.6	12.4
Total	167.9	122.8

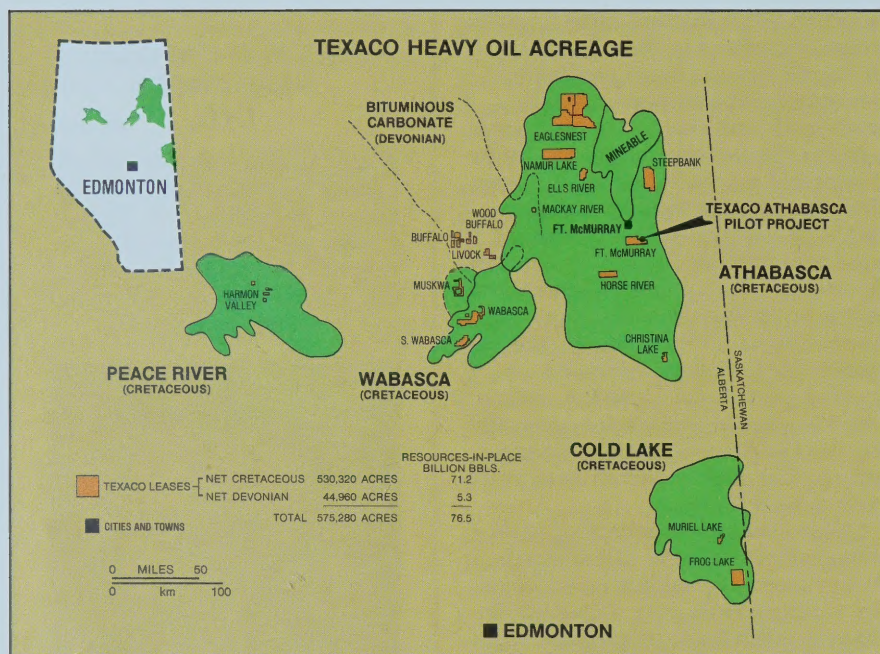
TEXACO CANADA RESOURCES LTD.

A new Alberta company, Texaco Canada Resources Ltd., a wholly-owned subsidiary of Texaco Canada Inc., was formed effective August 1, 1979 to own and manage the Texaco Canada exploration and producing properties.



Donald E. Hyer

Donald E. Hyer, previously Vice-President and General Manager, Exploration and Producing, Texaco Canada Inc., was elected President, Chief Executive Officer and a Director of the new company.



Development

Texaco Canada participated in the drilling of 80 development wells in 1979, 23 of which were successfully completed as oil wells and 47 as gas wells. Included in this drilling activity were nine Nisku development wells in the West Pembina Nisku area, eight of which were producing oil wells.

A centralized crude oil and gas separation facility to handle West Pembina Nisku production was built and went on stream during the year. This facility is designed to handle in excess of 15,000 barrels of oil and 18 million cubic feet of gas per day. Gas sweetening facilities were added to the existing Cynthia gas processing plant in order to handle up to 4.5 million cubic feet per day of Nisku gas produced in conjunction with the oil.

Engineering studies on two of the Nisku pools have indicated that oil recovery

can be substantially increased through miscible flooding by the re-injection of solution gas and contained liquids. The facilities to accomplish this miscible flood should be in place by mid-1980. In addition, waterflood projects, to improve recovery, will be implemented in several other pools.

In the Elmworth area of the Deep Basin, the company participated in the drilling of 13 development wells, nine of which were completed as gas wells.

Natural gas production began on November 1 from the Elmworth field, and Texaco Canada's share of the sales averaged 13.2 million cubic feet per day. It is anticipated that the company's contracted sales and production from this area will increase substantially in late 1980 as a result of recent drilling which has increased gas reserves.

Three additional drilling rigs were leased under long-term contracts. This equipment, plus rigs employed on a short-term basis, will enable the company to pursue a more active exploration and development drilling program in Western Canada.

Development Drilling

	Number of Wells			
	1979		1978	
	Gross	Net	Gross	Net
Oil	23	6.1	8	3.9
Gas	47	8.4	79	10.7
Dry	10	3.3	4	1.6
Total	80	17.8	91	16.2
% Productive	88	81	96	90

Reserves

Texaco Canada's gross proved recoverable reserves of crude oil and natural gas liquids at the end of 1979 were estimated at 543 million barrels, an increase of four million barrels over the 1978 level. The major additions to such reserves were at Bonnie Glen and in the West Pembina area. The Bonnie Glen additions were a result of reservoir studies based on pool performance which confirmed the original oil and gas in place to be higher than previously recognized. The overall reserves were increased by 66 million barrels, which more than offset total production of almost 62 million barrels. The increase in gross liquid reserves is the first since 1970 and was achieved in spite of much higher production levels. The decrease in net reserves is due mainly to an increase in estimated future royalties resulting from increased year-end crude oil prices.

Estimated gross natural gas reserves were 2,074 billion cubic feet at the end of 1979, an increase of 141 billion cubic feet over the 1978 year-end level of 1,933 billion cubic feet. Major additions to reserves were made in Bonnie Glen and the Elmworth area of the Deep Basin.

The crude oil reserves in the West Pembina area and the gas reserves in the Deep Basin remain under active development and will result in substantial addi-

tions in the coming years. Ultimate liquid reserves in West Pembina could exceed 100 million barrels, and the Deep Basin gas reserves may reach 700 billion cubic feet.

Estimated Proved Recoverable Reserves of Hydrocarbons as of the end of the Year

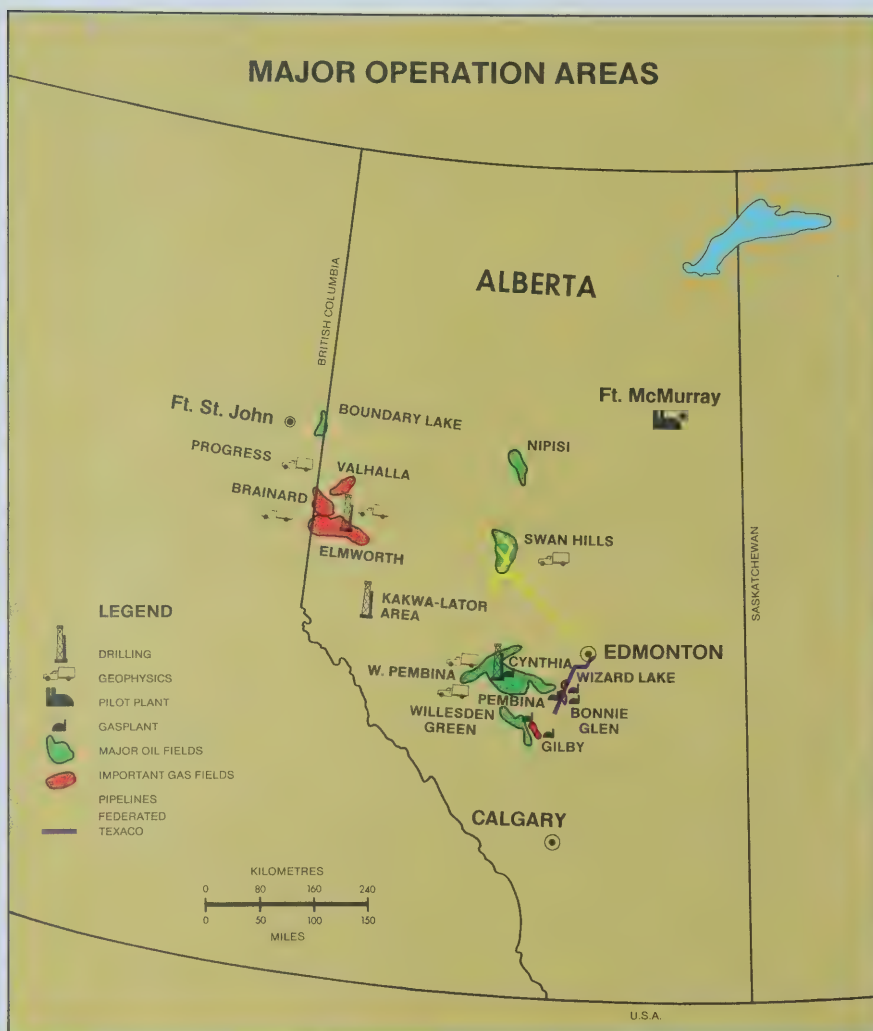
	Millions of Barrels			
	1979		1978	
	Gross	Net	Gross	Net
Crude Oil	453	287	440	299
Gas Liquids	90	64	99	72
Total	543	351	539	371
	Billions of Cubic Feet			
Natural Gas	2,074	1,473	1,933	1,424

Net reserves are after the deduction of royalties at rates in effect at the end of the applicable year.

Oil Sands

Operations in the company's experimental oil recovery project in the Athabasca Oil Sands near Fort McMurray, Alberta, continued throughout 1979.

Because all of the Texaco Canada properties are too deep for surface mining, "in-situ" methods such as steam flooding or underground combustion must be used. The company has spent about \$25 million to date in conducting an experimental steam flood project at its lease located immediately south of Fort McMurray. Recoveries to date have been very encouraging and are expected to be close to 50% of the bitumen in-place at the conclusion of the project. To be commercially viable, however, a project must have wells with higher production rates and fewer wells drilled



Flowlines are welded for Nisku production at Pembina, Alberta.



in a given area. Future work will, therefore, be directed to improving production rates and well spacing.

Texaco Canada is actively engaged in research into a number of problems associated with in-situ production of bitumen from the Athabasca oil sands. Through co-operative research programs with the University of Alberta, the Alberta Research Council, and the Federal Department of Energy, Mines and Resources, significant advances have been made in the laboratory simulation of field production techniques and also in understanding the nature of the fluids produced when steam is injected into the oil-sand formation. Research also is being conducted as to some of the significant problems associated with the upgrading of bitumen produced from the oil sands.

The funding of research within Canadian universities and the public sector has proved to be a successful venture for the company over the past few years. A balance between the practical and theoretical approach to problems has been sought and, in most cases, has been achieved.

At year-end the company held some 575,000 acres of oil sands leases containing an estimated 77 billion barrels of bitumen in place.

Coal

The company holds approximately 128,000 acres of sub-bituminous coal leases in central Alberta. The coal seams occur at depths ranging from 500 to 1,000 feet and coal in place in seams greater than five feet thick is estimated to be three billion tons. The company expects coal to contribute significantly to Canada's long-term energy supplies, and detailed evaluation of Texaco Canada's present leases and of future participation in coal projects is in progress.

Unusual photograph of wellsite at Valhalla, northern Alberta, was taken during the eclipse of the sun February 26, 1979. Photographer was Texaco employee Robert Reeh, who also took the photographs on pages 6, 9, 11 and the front cover.

Frontier Areas

Texaco Canada has an 18% interest in the Mobil Texaco PEX Venture D-23 wildcat well which encountered a highly significant gas and condensate section. The well, located off Sable Island approximately 120 miles from the Nova Scotia shore, was drilled in 69 feet of water. Extensive additional seismic work has been carried out to define the structure. Several stepout wells will be necessary to confirm the extent of the reservoir, the first of which will be drilled in 1980.

During 1979 the drilling of the Texaco Shell et al Blue H-28 well was completed. This well, some 200 miles north-east of St. John's, Newfoundland, was drilled in a world record depth of 4,876

feet of water. It also established a new Canadian drilling depth record of 20,023 feet.

No significant problems were encountered in drilling this well, and final total depth was reached in 111 days. The dynamically self-positioning drillship, Discoverer Seven Seas, was used for the operation. Four icebergs had to be towed to avoid the possibility of collision with the drillship.

This well, which failed to encounter any oil or gas, earned Texaco Canada a 20% interest in the 5.5 million acre Gander block. Blue H-28 is located 200 miles north of the Chevron et al Hibernia oil discovery. Significant geological and geophysical information has been derived from the Blue well, and studies are currently underway to determine the remaining potential of the Gander acreage.

Texaco Canada has been actively involved in a number of industry and government sponsored environmental

studies offshore Eastern Canada. These studies will increase our knowledge of the ecology of the region and the natural hazards to operations in this severe environment.

The company has 1.4 million gross acres under permit in the Beaufort Sea. These holdings are under farm-out option to Dome Petroleum Limited, which is conducting drilling operations in the Beaufort Sea area and has announced several encouraging hydrocarbon discoveries over the past several years near the Texaco Canada holdings. Dome has elected to drill a 12,000 ft. test well on one of the Texaco Canada blocks and this drilling will begin during the 1980 drilling season. It has an option until April 1, 1980 to elect to drill on a second block, and a similar option until April 1, 1981 to elect to drill on a third block.



Pisces VI submarine is raised aboard drillship Discoverer Seven Seas after witnessing the initial phase of drilling almost a mile beneath the surface.

Petroleum Products

Refining

Crude runs at the company's plants during 1979 averaged 193,500 barrels a day. This was an increase of 18.3% over the previous year.

At the new Nanticoke refinery, crude runs averaged 87,900 barrels daily. The plant throughput was progressively increased to its rated capacity of 95,000 barrels daily, which was achieved during the month of June, and crude runs averaged 103,500 barrels a day during the fourth quarter.

The fluid catalytic cracking unit at the Montreal plant was upgraded, at a cost of \$7.6 million, to provide for increased production of high octane gasoline and to reduce the emission of carbon monoxide into the atmosphere.

An expansion program was launched at the Edmonton plant to increase its capacity by 4,000 barrels daily to 28,000 barrels a day, by installing facilities for the processing of additional condensates. The expansion is scheduled for completion in late 1980.

The company continued to make significant investments to improve the quality of air and water discharged from its plants. At the Halifax plant a \$400,000 landfarm to decompose organic wastes and a \$2.0 million waste water treating unit were put into operation. Construction of similar waste water treating facilities was underway at year-end at both Montreal and Edmonton plants.

The Port Credit refinery has been operating on a limited basis for the manufacture of petrochemicals. Future utilization of all the Port Credit facilities is under review.

Nominal Crude Oil Capacity of Refineries as at December 31, 1979

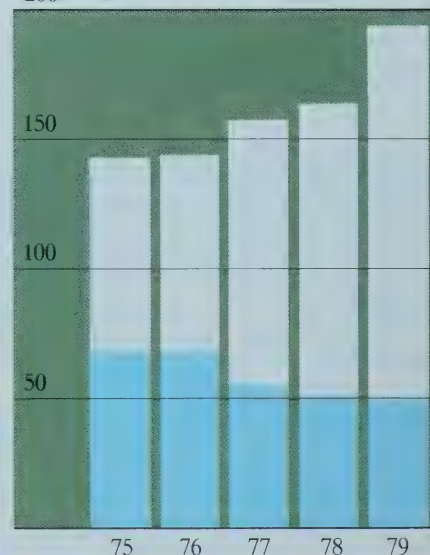
	Barrels Daily
Nanticoke, Ontario	95,000
Montreal, Quebec	74,500
Edmonton, Alberta	24,000
Halifax, Nova Scotia	20,000
Total	213,500*

*Does not include idle capacity at Port Credit refinery.

Refinery Runs

Thousands of barrels daily

Domestic Crude
Imported Crude



Vacuum truck with flotation wheels injects organic and semi-solid wastes into soil to a depth of four inches at landfarm at Halifax plant, where carefully cultivated colonies of bacteria consume objectionable substances. Landfarm was commissioned in 1979 as part of Texaco's commitment to environmental protection.



Chemist tests product at Nanticoke plant. Quality control is an important part of the refining process at all Texaco plants.

Installation of riser cracking facilities on fluid catalytic cracking unit, Montreal plant.



Marketing

Sales of petroleum products during 1979 averaged 207,200 barrels a day, an increase of 7.7%.

Petroleum product prices firmed considerably during the second half of 1979. This factor, together with increased sales volume, enabled the marketing operations to make a more significant contribution to earnings in 1979. Supplies of refined products remained tight but were sufficient to meet customer demand across Canada throughout the year.

The introduction by the company of a premium Sky Chief Lead Free gasoline

was completed in all major markets of the country by mid-year.

Texaco Canada continued to eliminate non-profitable marketing outlets through a planned property consolidation program.

The company maintained its scheduled program of metric conversion during the year. By year-end, all lubricants were being packaged in metric containers, and more than 70% of the Texaco retailers were marketing gasoline and diesel fuel in litres. All terminals and bulk stations are scheduled to be converted to metric measure by the end of 1980.

The Operations Centre program, which employs advanced telecommunications and data processing equipment to centralize the company's distribution system, is now being employed in Ontario and Quebec. The Maritimes and Western Canada will be brought into the

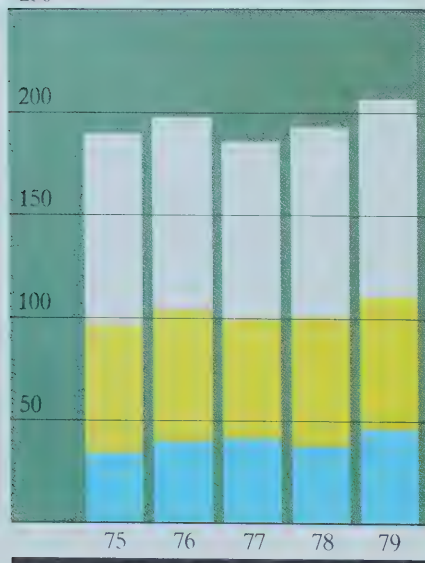
system during 1980. The program improves operating efficiency and reduces costs by consolidating dispatching and maintenance control functions and related administrative activities.

As part of the company's ongoing commitment to energy conservation, trained personnel performed combustion efficiency tests on the furnaces of existing and prospective fuel oil customers. Texaco Canada has introduced, on a test basis, an advanced flame retention burner head for oil furnaces as part of a conservation oriented marketing package for home owners. The new unit substantially improves burning efficiency and reduces fuel consumption.

Sales of Petroleum Products

Thousands of barrels daily

Product	1975	1976	1977	1978	1979
Gasolines	~90	~95	~90	~95	~100
Distillates	~50	~55	~50	~55	~60
Other Products	~15	~15	~15	~15	~15
Total	~155	~165	~155	~165	~175



Operator with hand control device loads lubricant for delivery to customer.

Supply and Distribution

Advanced flame retention head for oil furnaces is installed by technician.



Texaco contractor spreads cellulose insulation in customer's attic to reduce winter fuel bill.



The company's supply operations were consolidated in 1979 into a single organization within the Supply and Distribution Department for greater efficiency and co-ordination.

Texaco Canada transported approximately 400,000 barrels of crude oil and petroleum products a day during the year. The three company-owned tankers moved a record 28,500 barrels per day of products, an increase of 4.2 per cent over 1978. Approximately 17,300 barrels per day of products were carried in leased tank cars.

Alberta Products Pipe Line Ltd., 20 per cent owned by Texaco Canada, operated at full capacity in 1979 moving an average of 58,200 barrels per day, an increase of 4.5 per cent over 1978. Expansion of the line is presently underway.

Trans-Northern Pipe Line Company, 33-1/3 per cent owned, transported a record volume of 164,000 barrels a day. Construction of lines to remove a capacity bottleneck in the Oakville area was completed late in the year.

The Montreal Pipe Line Company Limited, 16 per cent owned, carried a reduced volume of 130,700 barrels a day of imported crude oil from Portland to Montreal in 1979. This reduction is a result of the movement to Montreal of increased volumes of Western Canadian crude through the Interprovincial Pipe Line extension.

Federated Pipe Lines Ltd., 50 per cent owned, carried an average of 228,500 barrels a day of crude oil, approximately the same volume as in 1978.

The company in 1979 negotiated its first contract directly with the national oil company of Venezuela for the supply of crude oil during 1980 to the Montreal and Halifax refineries.



Mechanic diagnoses engine fault in modern service bay.

Other Activities

Employee Relations

Texaco Canada had a total of 4,265 employees at year-end, compared to 4,419 in 1978. Payroll and benefit plan costs of \$109.0 million were 7% higher.

Manpower planning and development activities were reorganized into an enlarged Human Resources Planning and Development function within the Employee Relations Department.

A dental plan was added to the company's benefits package.

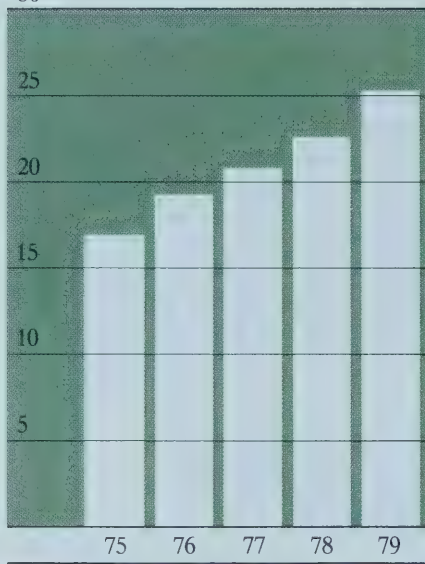
Texaco Canada's Merit Scholarship program was improved by adding five scholarships, bringing to 30 the number of scholarships awarded each year to sons and daughters of Texaco employees to attend university in Canada. At year-end there were 85 such students on Texaco Canada scholarships. Three hundred and twenty-nine scholarships have been awarded since the program began in 1966. Tuition reimbursements were provided to 158 employees under the Educational Assistance program which was enlarged to include physical education programs.

The company's relocation policy was amended to provide additional assistance to employees who move at the company's request.

Seventy-four employees received 25-year service awards in 1979. At year-end there were 689 employees with 25

Salaries, Wages and Benefits per Employee

Thousands of dollars



or more years of service with the company. One hundred and twelve employees retired in 1979, bringing the number of former employees on pension to 651.

Computer console operators monitor processing of job streams at operations control centre, Don Mills.



Public Affairs

The company continued to express its views, to audiences ranging from governments and the investment community to the general public, on issues and subjects of importance and concern to Texaco Canada and the industry.

In addition, significant operating and organizational changes and developments within the company, combined with growing public interest in energy matters, resulted in a further increase in public communications.

Operating activities which were the subject of particular attention included the offshore Gander wildcat deep water drilling project, for which the company was the operator. Also of interest was the launching by Texaco Canada, in co-operation with the University of Guelph, of a research project at its Nanticoke refinery to determine if waste low grade heat from industrial processes such as refining can be used to grow food. Interest and concern among consumers and the general public about the future availability of supplies and the costs of petroleum products increased significantly during the year. Emphasis was given to ongoing two-way communications with particular publics such as legislators, educators, students, the news media, and business groups.

Among the important issues on which Texaco Canada made its views known in 1979 were the need for a financial and operating environment in which the search for and development of new energy sources would be encouraged, strong conservation measures, and expansion of natural gas sales in existing Canadian markets and through exports to the United States.

The company increased its level of support to educational, health, cultural and other community endeavours, directly or through combined appeals.

The year 1979 marked the 40th anniversary of Texaco's sponsorship of live broadcasts of Metropolitan Opera productions carried on English and French language radio networks across Canada.

Description of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Texaco Canada Inc. and its subsidiary companies and are prepared in accordance with accounting principles generally accepted in Canada. Intercompany accounts and transactions are eliminated.

The premium paid on subsidiary companies' capital stock at date of acquisition is being amortized on a straight-line basis over twenty years.

Foreign currencies are translated into Canadian dollars as follows: (1) Current assets except inventories, long-term receivables, current liabilities, and capital lease obligations, at the rate in effect at the end of the period; (2) inventories, properties, plant and equipment and related depreciation and deferred charges at the rate in effect when the assets were acquired; and (3) all other income accounts at rates in effect at the time of the transaction. Gains and losses on foreign currency transactions and charges and credits arising on translation of balance sheet accounts are reflected in income currently.

Inventories

Inventories of crude oil and petroleum products and other merchandise are stated at cost, determined on the first-in, first-out method, which, in the aggregate are valued lower than market. Materials and supplies are stated at cost.

Investments and Advances

The Corporation uses the equity method of accounting for its investments in companies owned 50%, and for all significant corporate joint ventures owned less than 50%. Under this method, the Corporation's equity in net earnings or losses of these companies is reflected currently in income rather than when realized through dividends. Investments in companies accounted for by this method reflect the Corporation's equity in the underlying net assets of the companies.

Investments in other non-subsidiary companies are carried at cost, and the Corporation's interest in the net earnings of these companies is reflected in income when realized through dividends.

The Corporation has properties leased to an affiliated company. These non-mineral leases are capitalized as direct financing leases and amortized in accordance with the respective lease agreement.

Properties, Plant and Equipment and Accumulated Depreciation, Depletion, and Amortization

All exploratory costs, including geophysical and geological expenses, core drilling, lease rentals, and intangible drilling costs applicable to dry holes are charged to expense as incurred.

Lease acquisition costs, intangible drilling costs on productive wells, and tangible equipment costs related to the development of oil and gas reserves are capitalized and amortized. For lease acquisitions costing less than one million dollars, the portion of leasehold costs estimated to be non-productive based upon historical experience, is amortized on an average holding period basis. For lease acquisitions costing one million dollars or more the portion of leasehold costs estimated to be non-productive, is amortized over the initial exploration period. Leasehold costs which have been determined to be productive and other development costs related to producing activities, including tangible and intangible costs, are amortized on the unit-of-production basis by applying the ratio of produced oil and gas to estimated recoverable oil and gas reserves.

Depreciation of other properties, plant and equipment is provided generally on the group plan, using the straight-line method, with depreciation rates based upon estimated useful life applied to the cost of each class of property.

Start-up costs of new facilities are capitalized and amortized in accordance with the Corporation's depreciation policy.

The Corporation accounts for leases that transfer all of the benefits and risks of ownership related to leased properties as capital leases. Included in properties, plant and equipment are capital leases pertaining to rights other than for exploration and development of natural resources which are amortized over the estimated useful life of the asset or lease term, as appropriate, using the straight-line method.

Normal maintenance and repairs are charged to expense as incurred. Renewals, betterments, and major repairs that materially extend the life of properties are capitalized and the assets replaced, if any, are retired.

Research and Development Costs

Research costs are charged to income as incurred. Development costs are charged as an expense of the period in which they are incurred except when the project is expected to commence commercial production within the foreseeable future. When this occurs, development costs are deferred and amortized to match related revenues.

Deferred Income Taxes

Provision is made in the Corporation's accounts to reflect the income tax effect applicable to transactions recorded in the Corporation's financial statements in a reporting period different from the period in which they are reported for income tax purposes. The principal transactions are those related to depreciation, intangible drilling costs and leasehold costs.

Deferred income taxes as shown in the balance sheet represent the cumulative effect of net charges made against earnings to defer these income tax effects to appropriate future periods in the Corporation's financial statements. This accounting policy allocates the income tax effect of transactions to the period in which such transactions are recorded for financial reporting purposes.

Pension Plan

A group pension plan is available to substantially all employees. Amounts charged to pension expense are based on amortizing the cost of pension benefits on an actuarial basis over the remaining estimated service of the employees involved.

Investment Tax Credits

Investment tax credits, other than tax rate reductions, are deducted from the related expenditure and amortized to income in accordance with the applicable accounting policy.

Federal Government Crude Oil Compensation Programs

Compensation received or recoverable under the programs for imported and for synthetic domestic oil for consumption in Canada is deducted from cost of crude oil purchases. In order to be eligible for compensation the Corporation has complied with Federal Government legislation.

for the years ended December 31, 1979 and 1978 (Dollars expressed in thousands except per share data)

Restated to reflect the change in the method of accounting for lease transactions other than those pertaining to natural resources (Note 1). In addition, federal excise tax and provincial motor fuel taxes collected from consumers were paid or accrued in the amounts of \$297,105 during 1979, and \$296,777 during 1978.

Net income per common share based on average number of common shares outstanding (1979—30,125,032 shares, 1978—30,118,002 shares). Conversion of the first preferred shares Series A, into common shares would not materially change the net income per common share.

See accompanying description of significant accounting policies and notes to consolidated financial statements.

for the years ended December 31, 1979 and 1978 (Dollars expressed in thousands)

Restated to reflect the change in the method of accounting for lease transactions other than those pertaining to natural resources (Note 1). See accompanying description of significant accounting policies and notes to consolidated financial statements.

Texaco Canada Inc. and Subsidiary Companies

Consolidated Balance Sheet

December 31, 1979 and 1978 (Dollars expressed in thousands)

Assets	1979	1978*
Current Assets		
Cash.	\$ 12,282	\$ 29,660
Marketable securities, at cost which approximates market.	280,747	11,207
Accounts and notes receivable.	403,396	252,521
Inventories		
Crude oil and petroleum products and other merchandise.	304,682	197,783
Materials and supplies.	8,753	7,079
Prepaid expenses.	16,753	3,670
Total current assets	\$1,026,613	\$ 501,920
Investments and Advances (Note 2).	\$ 188,688	\$ 199,470
Properties, Plant and Equipment (Note 3).	\$1,081,154	\$1,055,982
Deferred Charges		
Premium paid on subsidiary companies' capital stock, less amortization.	\$ 1,344	\$ 1,548
Other.	1,936	3,989
Total deferred charges	\$ 3,280	\$ 5,537
Total	\$2,299,735	\$1,762,909

*Restated to reflect the change in the method of accounting for lease transactions other than those pertaining to natural resources (Note 1).
See accompanying description of significant accounting policies and notes to consolidated financial statements.

Liabilities and Shareholders' Equity

	1979	1978*
Current Liabilities		
Long-term debt due within one year.	\$ 28	\$ 26
Capital lease obligations due within one year.	7,957	11,615
Accounts payable and accrued liabilities		
Affiliated companies.	36,893	20,057
Other.	285,939	166,365
Sales, motor fuel and other taxes.	33,957	40,069
Income taxes.	182,382	10,175
Dividends payable.	1,832	1,843
Total current liabilities	\$ 548,988	\$ 250,150
Long-term Debt (Note 4).	\$ 93,848	\$ 100,095
Capital Lease Obligations (Note 6).	\$ 16,085	\$ 28,868
Deferred Income Taxes.	\$ 349,421	\$ 284,042
Shareholders' Equity		
Preferred stock (Note 5).	\$ 292,974	\$ 293,684
Common Stock and Retained Earnings		
Common stock (Note 5).	\$ 34,141	\$ 33,431
Retained earnings.	964,278	772,639
Total common stock and retained earnings	\$ 998,419	\$ 806,070
Total	\$2,299,735	\$1,762,909

Approved on behalf of the Board

R. W. Sparks, Director

Neil M. Shaw, Director

Texaco Canada Inc. and Subsidiary Companies

Consolidated Statement of Changes in Financial Position

for the years ended December 31, 1979 and 1978 (Dollars expressed in thousands)

	1979	1978*
Source		
Net income.	\$263,895	\$154,092
Depreciation, depletion, and amortization.	54,719	34,438
Provision for income taxes—deferred.	64,869	98,192
Excess of equity in earnings of non-subsidiary companies over dividends (Note 2).	(780)	(162)
Unrealized net currency translation loss (gain) on long-term receivable and capital lease obligations.	3,931	(4,857)
Provided by operations.	\$386,634	\$281,703
Additions to capital lease obligations (Note 6).	—	274
Properties, plant and equipment retirements, sales, and investments tax credits.	30,656	4,374
Other (net).	2,767	(2,699)
	<u>\$420,057</u>	<u>\$283,652</u>
Disposition		
**Properties, plant and equipment expenditures.	\$110,547	\$164,652
Investments and advances (net).	(8,792)	170,693
Reduction in long-term debt (Note 4).	6,247	26
Reduction in capital lease obligations (Note 6).	13,944	5,934
Expenses related to amalgamation.	—	2,625
Cash dividends—preferred stock.	21,645	12,717
—common stock.	50,611	31,070
	<u>\$194,202</u>	<u>\$387,717</u>
Increase (decrease) in working capital.	\$225,855	(\$104,065)
Working Capital		
At beginning of year.	\$251,770	\$355,835
At end of year.	<u>\$477,625</u>	<u>\$251,770</u>
**Properties, plant and equipment expenditures		
Producing.	\$ 63,898	\$ 52,838
Manufacturing.	25,382	94,488
Marketing.	19,635	16,352
Marine.	289	80
Pipelines.	223	282
Other.	1,120	612
	<u>\$110,547</u>	<u>\$164,652</u>

*Restated to reflect the change in the method of accounting for lease transactions other than those pertaining to natural resources (Note 1).
See accompanying description of significant accounting policies and notes to consolidated financial statements.

Texaco Canada Inc. and Subsidiary Companies

Notes to Consolidated Financial Statements

(Dollars expressed in thousands)

1. Change in Accounting Policy

In December 1978, the Canadian Institute of Chartered Accountants issued a recommendation for accounting for lease transactions pertaining to rights other than for exploration and development of natural resources. The Corporation's financial statements retroactively reflect adjustments applicable to the change in accounting policy for all capital leases and direct financing leases.

The change in accounting policy resulted in an increase in net income for 1978 of \$6,240, equal to \$0.21 per common share. Consolidated retained earnings at January 1, 1978 were decreased \$1,761 representing the cumulative effect on net income of prior years.

2. Investments and Advances

	1979	1978
Non-subsidiary companies accounted for:		
On equity basis.	\$ 18,264	\$ 17,484
At cost.	14	15
	<u>\$ 18,278</u>	<u>\$ 17,499</u>
Miscellaneous investments		
Direct financing leases		
Affiliated company.	166,551	175,548
Notes, mortgages and other		
long-term receivables.	3,859	6,423
	<u>\$188,688</u>	<u>\$199,470</u>

3. Properties, Plant and Equipment

	Cost		Accumulated Depreciation, Depletion, and Amortization	
	1979	1978	1979	1978
Producing.	\$ 485,584	\$ 424,015	\$176,022	\$156,898
Manufacturing.	667,685	672,103	112,563	93,521
Marketing.	305,105	297,232	120,271	118,944
Marine.	20,240	19,951	3,456	2,743
Pipelines.	10,600	10,383	5,367	5,098
Other.	18,025	16,874	8,406	7,372
	<u>\$1,507,239</u>	<u>\$1,440,558</u>	<u>\$426,085</u>	<u>\$384,576</u>

Net investment. . . . \$1,081,154 \$1,055,982

The amount of capital leases included in properties, plant and equipment on the balance sheet at December 31, 1979 and 1978 is as follows:

	1979	1978
Gross amount of capital leases.	\$46,744	\$77,018
Less: Amortization.	22,370	29,886
Net amount of capital leases.	<u>\$24,374</u>	<u>\$47,132</u>

On November 30, 1978, the Corporation announced that it had substantially reduced operations at its Port Credit refinery. However, the facility continues to serve as the Corporation's main product distribution point for Toronto, Ontario area and for the production of petrochemicals. The crude oil processing facilities are being maintained in an operable condition. As at December 31, 1979, the undepreciated investment in the inactive segment of the Port Credit location is not significant.

4. Long-term Debt

Long-term debt at December 31, 1979 and 1978 is as follows:

	1979	1978
10¾% debentures, 1974 series, due 1994 (\$5,000 annual sinking fund requirement 1980—1993).	\$100,000	\$100,000
Other.	95	121
	<u>\$100,095</u>	<u>\$100,121</u>
Less: Long-term debt due within one year and debentures held for sinking fund requirements (1979—\$1,219).	6,247	26
	<u>\$ 93,848</u>	<u>\$100,095</u>

5. Capital Stock

	1979	1978
Preferred Stock		
<i>First Preferred Shares</i>		
Unlimited number of shares without nominal or par value, authorized and issuable in series:		
<i>Series A</i> — \$6.00 cumulative, redeemable, convertible		
Issued — 37,500 shares		
Outstanding		
1979, 29,736 shares, and		
1978, 36,840 shares.	\$ 2,974	\$ 3,684
<i>Second Preferred Shares</i>		
2,900,000 shares without nominal or par value, authorized and issued in series:		
<i>Series A</i> — \$7.50 cumulative, redeemable		
Outstanding — 1,700,000 shares	170,000	170,000
<i>Series B</i> — \$7.25 cumulative, redeemable		
Outstanding — 1,200,000 shares	120,000	120,000
Total Preferred Stock	<u>\$292,974</u>	<u>\$293,684</u>
Common Stock		
<i>Common Shares</i>		
Unlimited number of shares without nominal or par value and authorized:		
Issued and Outstanding — 1979, 30,133,140 shares and 1978, 30,118,932 shares.	\$ 34,141	\$ 33,431

First Preferred Shares, Series A, are redeemable at the Corporation's option upon a notice of not less than thirty days prior to the date fixed for redemption for an amount of \$102.50 a share or can be purchased by the Corporation at a price not exceeding the redemption price of \$102.50. The First Preferred Shares, Series A will not be redeemed or purchased by the Corporation before the first day of June 1983. These shares are convertible into fully paid and non-assessable common shares on the basis of two Common Shares for each First Preferred Share. During 1979, 7,104 shares were converted into 14,208 Common Shares.

Second Preferred Shares, Series A, are redeemable at \$100.00 a share on the last day of February, May, August and November in each twelve-month period after June 1, 1984. The Corporation shall not call for redemption, redeem, purchase or otherwise retire for value any Second Preferred Shares, Series A, at any time when any Second Preferred Shares, Series B, are outstanding unless contemporaneously therewith it shall call for redemption and redeem, purchase or otherwise acquire all outstanding Second Preferred Shares, Series B. At the option of the holders 400,000 shares may be redeemed each twelve-month period from June 1, 1984 through 1986 and 500,000 shares each twelve-month period thereafter. If certain dividend and working capital tests are met, the number of shares which may be redeemed at the option of the holders can be increased to 800,000 each twelve-month period from June 1, 1984 through 1986 and to 900,000 each twelve-month period thereafter.

Second Preferred Shares, Series B, are redeemable at \$100.00 a share. There is a mandatory redemption on the last day of February and May commencing in 1982 and each year thereafter for a total of 400,000 shares each year. Subject to certain dividend and working capital tests being met, redemption may be accelerated at the option of the holders for an additional 400,000 shares after June 1, 1981 and each twelve-month period thereafter.

The Corporation shall not solely at its own option redeem or purchase any Second Preferred Shares on or before June 1, 1988.

6. Capital Leases and Lease Commitments

As at December 31, 1979, the Corporation had non-cancellable leases expiring more than one year from such date covering service stations, office buildings and other facilities. Capital leases are recorded in the Corporation's balance sheet as assets along with the related debt. All remaining lease obligations are considered to be operating leases and continue to be recorded in the Corporation's income account as rental expense. Minimum amounts payable under capital and operating leases without reduction for related rental income are expected to average approximately \$8,700 annually for the next five years.

Auditors' Report

7. Pension Plan

As at December 31, 1979, costs which will be incurred in future years in respect of prior service amounted to approximately \$7,998 on a present value basis. These costs are being funded by annual payments of \$1,116 which will substantially amortize the liability by 1989.

8. Contingent Liabilities

Under certain service station lease agreements, the Corporation is contingently liable as guarantor for loans by third parties to the lessors which total \$6,446 as at December 31, 1979. Annual payments due for the five years commencing 1980 by the lessors are: \$1,287, \$1,309, \$1,379, \$1,453, and \$1,334. During 1979, the Corporation exercised its option to purchase certain service stations for the outstanding amount of the contingent liability.

Under long-term agreements with pipeline companies, the Corporation guarantees specified revenue from crude and refined products shipped. The Corporation may be required to advance funds against future transportation charges to certain companies in which stock interests are held, in the event such companies are unable to meet specific debt obligations. The contingent liability arising from such agreements together with certain liabilities on discounted notes, etc., amount to \$25,133 at December 31, 1979.

No losses are anticipated by reason of the above contingent obligations. In the opinion of the Corporation's General Counsel, while it is impossible to ascertain the ultimate legal and financial liability with respect to other contingent liabilities, including lawsuits, income taxes, claims, guarantees, etc., the aggregate amount of such liability would not be materially significant in relationship to the total consolidated assets of the Corporation and its subsidiaries.

At December 31, 1979, the Corporation is contractually liable to make payments, aggregating not less than \$6,000 under a "process or pay" agreement granting the Corporation the right to process specified volumes of crude oil.

ARTHUR ANDERSEN & CO.
CHARTERED ACCOUNTANTS

To the Shareholders,
Texaco Canada Inc.:

We have examined the consolidated balance sheet of Texaco Canada Inc. and subsidiary companies as of December 31, 1979 and 1978, and the related consolidated statements of income, retained earnings and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Texaco Canada Inc. and subsidiary companies as of December 31, 1979 and 1978, and the results of their operations and changes in their financial position for the years then ended in accordance with generally accepted accounting principles applied on a consistent basis after giving retroactive effect to the change (with which we concur) in the method of accounting for leases other than those pertaining to natural resources as explained in Note 1 to the financial statements.

Arthur Andersen & Co.

Toronto, Ontario
February 5, 1980.

Texaco Canada Inc. and Subsidiary Companies

Five-Year Review

(Dollars expressed in millions, except where noted)

	1979	1978*	1977*	1976*	1975*
Financial Summary					
Gross income.	\$2,684.9	\$1,928.4	\$1,734.6	\$1,606.2	\$1,558.6
Net income.	263.9	154.1	149.9	104.6	130.3
Per common share (dollars).	8.04	4.40	4.26	2.75	3.61
Per dollar of gross income (cents).	9.8	8.0	8.6	6.5	8.4
Dividends paid or accrued					
Common shares.	50.6	31.1	48.0	19.0	23.9
First preferred shares.	0.2	0.2	0.2	0.2	0.2
Second preferred shares					
Series A.	12.8	7.4	—	—	—
Series B.	8.7	5.1	—	—	—
Funds flow					
Provided by operations.	386.6	281.7	210.9	171.0	186.7
Per common share (dollars).	12.83	9.35	7.00	5.68	6.20
Capital and exploratory expenditures.	136.6	186.0	226.7	189.0	167.7
Taxes paid or accrued and deferred income taxes					
Provision for current and deferred income taxes.	272.8	141.5	137.4	115.3	126.1
Crown royalties, import duties and other levies.	235.0	166.3	142.4	115.3	104.0
Taxes other than income taxes.	98.9	93.2	85.4	73.8	66.3
Taxes collected from consumers.	297.1	296.8	302.0	306.8	265.6
Total.	903.8	697.8	667.2	611.2	562.0
Financial Condition at Year-End					
Current assets.	\$1,026.6	\$ 501.9	\$ 635.0	\$574.2	\$ 619.1
Current liabilities.	549.0	250.1	279.2	170.8	194.0
Working capital.	477.6	251.8	355.8	403.4	425.1
Properties, plant and equipment—net.	1,081.2	1,056.0	930.1	747.8	603.2
Investments, long-term receivables and other assets.	191.9	205.0	26.6	26.4	27.7
Capital employed.	1,750.7	1,512.8	1,312.5	1,177.6	1,056.0
Long-term debt.	93.8	100.1	100.1	100.1	100.2
Capital lease obligations.	16.1	28.9	34.5	34.4	36.1
Deferred income taxes.	349.4	284.0	187.0	153.9	115.9
Shareholders' equity					
Preferred.	293.0	293.7	293.8	293.8	293.8
Common.	998.4	806.1	697.1	595.4	510.0
Equity per common share (dollars).	33.13	26.76	23.15	19.77	16.93
Return on average capital employed.	16.4	11.5	12.6	10.0	13.9

*As stated in Note 1 of the Notes to Consolidated Financial Statements, previously reported figures have been restated to reflect the change in the method of accounting for lease transactions other than those pertaining to natural resources.

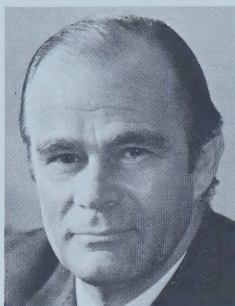
	1979	1978	1977	1976	1975
Operations Summary					
(In thousands of barrels daily)					
Production of crude oil and natural gas liquids					
Gross.....	167.9	122.8	123.6	124.4	138.2
Net.....	109.3	82.0	83.6	85.8	95.6
Refinery runs.....	193.5	163.6	157.5	145.1	143.0
**Refinery crude oil capacity at year-end.....	213.5	261.5	163.5	161.5	160.0
Petroleum product sales.....	207.2	192.5	187.6	198.4	191.2
Natural gas sales (millions of cubic feet daily)	78.3	71.5	85.7	87.3	86.0
Number of Wells Drilled					
Gross.....	103	119	107	63	107
Net.....	26.5	31.2	31.8	21.4	33.4
Estimated Gross Proved Recoverable Reserves					
Oil (million barrels).....	542.7	538.9	565.4	665.9	708.8
Gas (billion cubic feet).....	2,074	1,933	1,893	1,947	1,945
Share Ownership					
(At year-end)					
Number of common shares outstanding.....	30,133,140	30,118,932	30,117,612	30,117,612	30,117,612
Number of common shareholders.....	4,038	4,210	4,664	4,814	5,036
Number of first preferred shares outstanding..	29,736	36,840	37,500	37,500	37,500
Number of first preferred shareholders.....	409	493	534	565	589
Employees					
Number at year-end.....	4,265	4,419	4,413	4,418	4,441
Payroll and benefits.....	\$109.0	\$101.9	\$91.6	\$85.8	\$75.3

**Refinery crude oil capacity at year-end 1979 does not include idle capacity of the Port Credit, Ontario, refinery.

Directors of Texaco Canada Inc.



William S. Barrack, Jr.
Vice-President
Personnel and Corporate
Services
Texaco Inc.
White Plains, New York



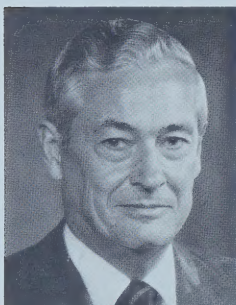
*Rodrigue J. Bilodeau
Chairman of the Board and
Chief Executive Officer
Honeywell Limited
Toronto



Jacques Bock
President and General
Manager
Bock and Tétreau Inc.
Montreal



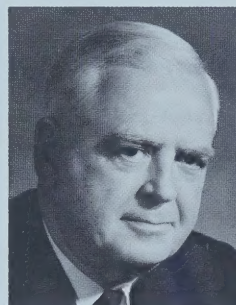
James E. Brazell
Executive Vice-President
Texaco Canada Inc.
Toronto



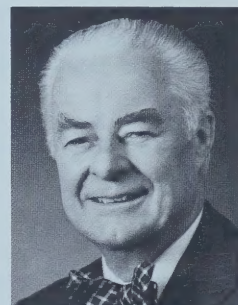
**Annon M. Card
Senior Vice-President
Texaco Inc.
White Plains, New York



**Stanley D. Clarke
President
Clarke Transport Canada Inc.
Montreal



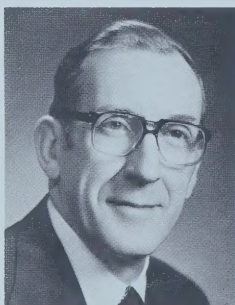
A. G. Farquharson
Retired, formerly President
and Chief Executive Officer
Texaco Canada Inc.
Bainsville, Ontario



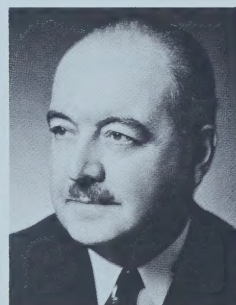
George W. Govier
President
Govier Consulting Services
Ltd.
Calgary



**H. J. Lang
Chairman
Canron Inc.
Toronto



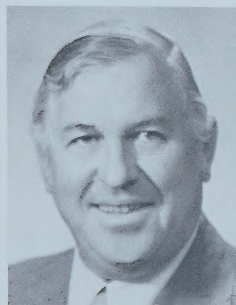
*J. Lee Morrison
Executive Vice-President
Texaco Canada Inc.
Toronto



The Hon. Victor deB. Oland
Chairman
Lindwood Holdings Limited
Halifax



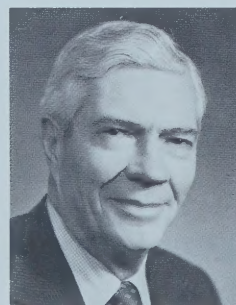
Richard B. Palmer
President
Texaco Canada Inc.
Toronto



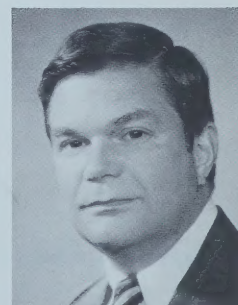
**Charles I. Rathgeb
Chairman of the Board
Comstock International Ltd.
Toronto



**Neil M. Shaw
President and Chief
Executive Officer
Redpath Industries Limited
Toronto



**R. W. Sparks
Chairman of the Board and
Chief Executive Officer
Texaco Canada Inc.
Toronto

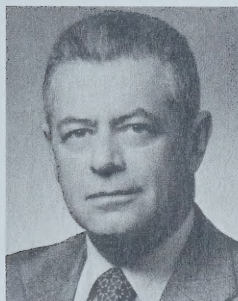


William K. Tell, Jr.
Senior Vice-President
Texaco Inc.
Washington, D.C.

*Member of the
Executive Committee

**Member of the
Audit Committee

Other Senior Officials



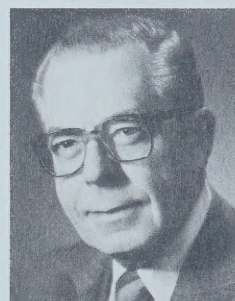
O. C. Cleyn
Vice-President, Eastern
Canada and Region
Manager



A. J. Galipeault
Vice-President and
General Counsel



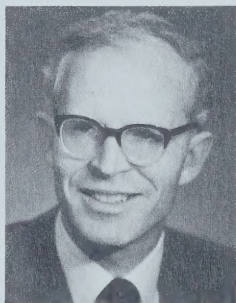
G. T. Plunkett
Vice-President and
Treasurer



J. C. Wattie
Vice-President, Personnel
and Corporate Services



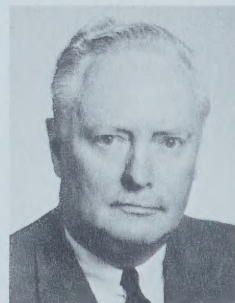
E. J. Little
Secretary



P. M. Taylor
Corporate Tax Officer



D. L. West
Comptroller



R. M. Clifford
General Manager,
Employee Relations



J. M. Murray
General Manager, Refining



N. E. Taylor
General Manager, Marketing



S. J. Walker
General Manager,
Supply and Distribution

